Tobacco

TRENDS

Marketing techniques maintain cigarette profits

Drug chains' merchandising experiments with cigarettes are paying off in the face of a declining market.

Chains are using new merchandising systems in their stores to increase cigarettes' exposure, and are featuring new high-margin "generics" that are steadily gaining market share. Add record levels of display and merchandise payments from vendors, and the cigarette department continues to be a profit center, even as unit sales slide.

"What we're seeing is that individual stores that are being creative are growing cigarette sales significantly," said Bob Partridge, a vp at Bercovich-Sosnick, a Santa Clara, Calif.-based candy and tobacco distributor.

Discounted three-pack

Bill's Drugs, of Santa Clara, for example, has started a promotion with B&S in which checkout clerks offer customers who are buying single packs a discounted three-pack value. Bill's started the program last month in most of its stores, said Partridge.

" We've found that 50% of customers will take advantage of it, and it doubles stores' sales overall," said Partridge. Branded packs selling at $1.25 are offered at three for $2.99 or $3.19, as part of a program B&S has used successfully with all claases of trade, Partridge said.

Several demographic factors support such a promo. The rapid rise of cigarette prices in recent years makes carton price points less appealing to consumers. It also seems sensible for most smokers to buy three at once, and save 75¢, since the average smoker goes through more than one pack a day, Partridge said.

LaVerdiere's Drugs of Maine has seen "dramatic" sales increases when it took cartons from behind the counter and put them onto downsized Philip Morris display racks in eight stores last year, according to executive vp Mike LaVerdiere.

The chain expects to put the fixtures in about 25 of its 60 stores within the next eight months, evaluating factors such as shrinkage and convenience store price competition on a store-by-store basis, said LaVerdiere.

Genovese Drugs in New York is posting 1987 category sales 13% ahead of last year, after expanding cigarette footage behind the front counter. By exposing a four-foot gravity-feed fixture for single packs, flanked on each side by four-feet of cartons, the chain sends a clear signal to customers that it is in the business, noted buyer Lenny Genovese.

Buyers say that a high level of brand switching is a key trend, with negative and positive implications for retailers.

"I've never seen more brand switching than in the last year," said B&S's Partridge, who said sales of some major brands are down 20%.

The switching stems partly from an unprecedented level of new styles being offered. It has created headaches for buyers seeking to keep styles that are in demand in stock, while maintaining the leanest inventory possible.

Move to generics

The advantage is that many brand switchers are moving to the generic styles, affording chains higher margins.

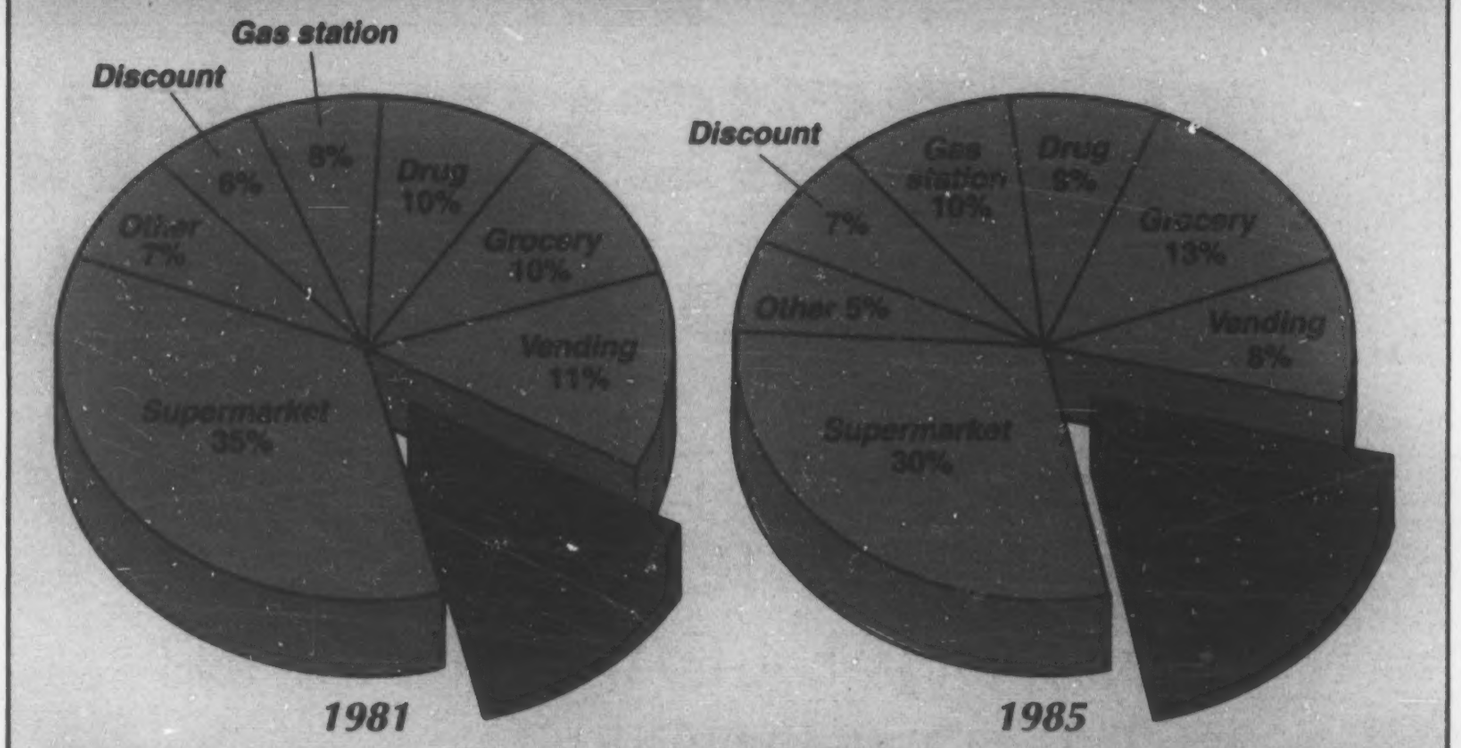
The price-value segment — black and whites, branded generics, and value 25's — continued to gain market share in 1987's first quarter. The segment posted a 9.7% share in the quarter, compared to its 9.2% share of the 1986 year, according to John Maxwell Jr., a tobacco analyst with Furman, Selz, Mager, Dietz, and Birney.

The segment's share in the first quarter had grown 1.5% on a 12-month basis, and price-value styles should account for 10.5% of industry sales by year's end, Maxwell forecast. He noted that this share could swell even more if branded prices are jolted further by new taxes.

Meanwhile, Maxwell reported total industry unit sales were down 4.4% in the first quarter, an acceleration of the 1% to 2% annual slide of recent years.

Buyers and distributors reported flat unit sales.

Convenience stores gain share of cigarette sales
(in units)



Source: Brown & Williamson, other trade sources

While health publicity is part of the reason, proliferating laws that ban public smoking are also permanently denting sales, said David Schneidman, president of Valley Stream Distributors, a Long Island, N.Y. jobber whose customers include Genovese, Walgreens and Austin Drugs.

"There are fewer places where you're allowed to smoke, and that's really affecting the marketplace," said Schneidman.

"You can't smoke in theaters anymore; those cigarette sales are lost forever," he said, noting also that some New York counties have banned or restricted smoking in malls and restaurants.

Chains are emphasizing in-store displays to promote the price-value offers. Branded generics are the hottest subcategory, buyers said.

Rix Dunnington — where total unit sales are flat — has posted increasing sales of branded generics, helped by floor displays of RJR's Doral, said senior vp Les Weiner.

The Massachusetts chain has also replaced overhead racks with RJR's new spring-loaded racks in 80% of its stores. Four-feet by five-and-a-half feet, they carry more styles and are more attractive than the overhead racks, Weiner said.

Top-selling branded generics include Philip Morris's Cambridge, Brown & Williamson's Falcon Lights, and Liggett & Myers' Quality Lights, buyers said.

But private label and black and white lines — which lost some share to branded generics in 1986 — have also caught on in some markets.

May's Drug in Tulsa, for example, has posted gains with private label brands, said Ron Spray, merchandise manager with the Tulsa tobacco and candy distributor Coremark.

May's sells Philip Morris-made cigarettes under the Best Buy name, and cigarettes called Major Brand made by Brown & Williamson, at about a $2.70 savings at retail on a carton against branded, Spray said.

Wellby Drugs and the Hannaford Bros. supermarkets gain significantly higher profits from generics over branded, due to generics' lower costs, said Hannaford head grocery buyer Tom Butterfield.

Butterfield positions price-value styles to sell at $2 to $2.50 a carton off branded, and projects the segment will account for 25% to 30% of Hannaford cigarette sales in one or two years, possibly more if prices keep rising.

Hannaford uses direct product profit models to figure the category's profitability.

Federal tax on cigarettes could double next month

Federal levies on cigarettes could double next month if Congress and the president endorse a tax bill included in a $18 million revenue package.

It would raise the federal tax on a pack to 32¢, compared to 8¢ in 1983.

If the cigarette tax isn't passed in some form in the revenue package—which faces an Oct. 1 deadline—it will be pursued as a separate bill, said Perry Plumart, a spokesman in the office of the bill's sponsor, U.S. Rep. Fortney "Pete" Stark (Calif).

The tobacco lobby sees slight chance for the bill's adoption as part of the revenue package.

'Very little sentiment'

"There is very little sentiment for it because it is part of a package of tax increases . . . that taken together would wipe out all the tax benefits the middle class gained under last year's tax reform act," said Walker Merryman, a vp with The Tobacco Institute, a group that lobbies for the tobacco industry.

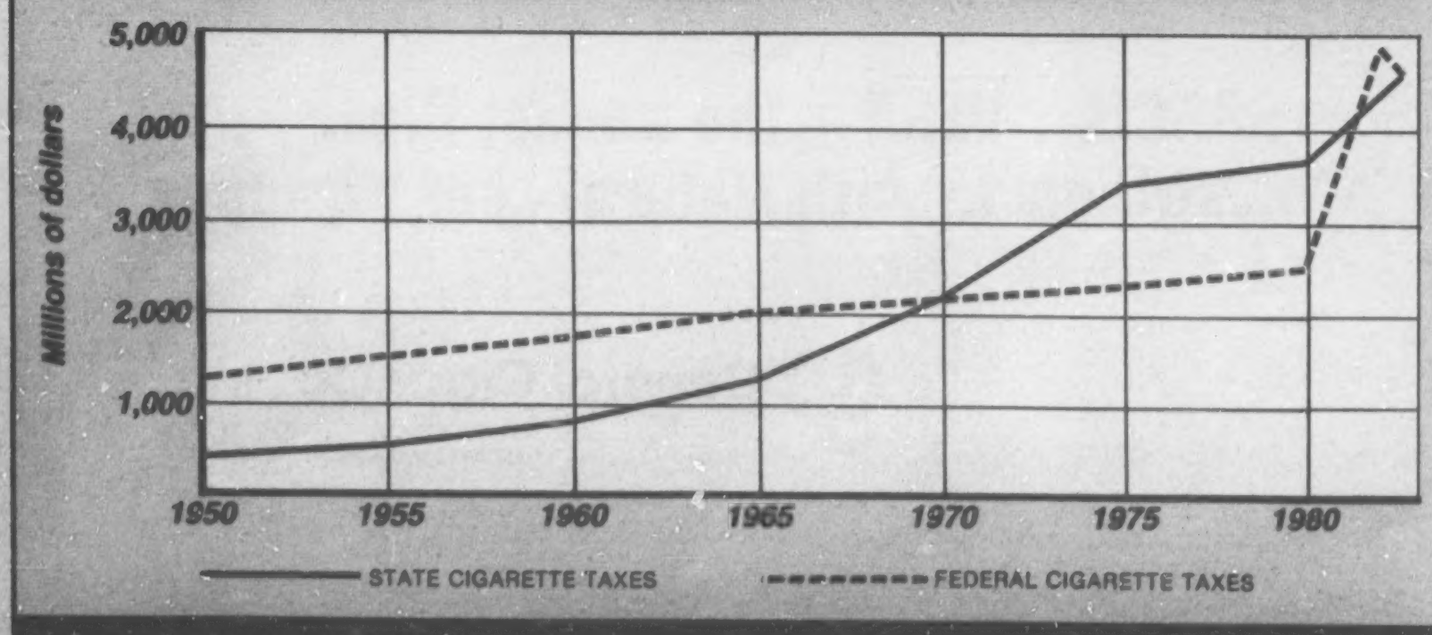
Combined with state taxes and sales taxes, the new federal tax would add yet another boost to burgeoning cigarette prices, that are driving consumers away from full-price brands to the price-value segment.

Meanwhile, a bill by U.S. Rep Mike Synar (Okla.) that would ban all ads and promotions of tobacco products is mired in a health subcommittee, chaired by Rep. Henry Waxman. John Hollar, a spokesman in Waxman's office said there is "a very good chance" the bill will be endorsed by the sub-group and sent to the full energy and commerce committee.

The Tobacco Institute's Merryman disagrees. He said he believes the bill is stalled in the subcommittee, since Waxman is a strong supporter of the bill, and "if he thought he could have a chance (to pass it), he would have moved it immediately."

The tobacco industry is also gearing up to fight a bill in the Senate co-sponsored by Sen. Bill Bradley (N.J.), and Sen Bob Chafee (R.I.) that would eliminate tobacco companies' rights to deduct advertising expenses as costs of doing businesss from their income taxes.

Federal taxes on cigarettes leap



Source: The Tobacco Institute, Washington D.C.

INSIDE PHARMACY

Computer Technology Survey

Technology provides a valued tool of the trade

Rxers judge computers by expectations, results

NEW YORK—Computers located in the pharmacy departments of major drug chains are quickly becoming almost as common as manual typewriters once were.

According to the *1987 Drug Store News Computer Technology Survey*, approximately one-quarter of the fifty chains surveyed reported having all their pharmacy departments equipped with pharmacy systems and more than two-thirds (68%) said that they would have all their stores up and running by next year.

Meanwhile, one-third reported 90% or more of their stores are already using pharmacy computers and approximately 80% of the chains said that they had at least 50% of their stores filling prescriptions on the new technology.

By next year, virtually all the chains said that at least 50% of their stores would feature pharmacy computer systems.

Low marks

Despite the fact that pharmacy computers have been around for more than a decade, pharmacists still give generally low marks of satisfaction to those features of a computer that mean the most to them.

A good example is the computers ability to trace third-party billings. According to the survey, 84% of the pharmacists asked considered this feature "very important" but only a little more than half (52%) said they were "very satisfied" with the computer's ability to race third-party billing.

Another area that expectations were low was in creating more time for patient counseling.

When the pharmacy computer first arrived on the scene, one of the major selling points was that it would free up pharmacists to do other things, like patient counseling. The survey revealed that 80% of the pharmacists did indeed think this was an important feature but less than half (48%) have apparently discovered that the demand on their time from filling prescriptions has not been lessened with the help of a computer.

Favored features

While expectations were low in some areas, other features of a pharmacy computer got relatively good grades.

Of all the features available from installing a pharmacy computer, price updates received the highest score with all the pharmacists picking this as being the most important. And overall, a large proportion (84%) said they were satisfied with the computer's, or service company's, performance.

Two features were tied for second place, filling in third-party forms and tracking patient profiles. Ninety-six percent of the pharmacists polled felt that both of these features were of paramount importance, with the tracking of patient profiles receiving better grades (92% of the pharmacists thought this service was very satisfactory with 84% saying that they were very satisfied with the way their computer handled third-party claim forms).

Other services that at least 50% of the pharmacists polled thought important included gross margin analysis (reported by 76% of the pharmacist with a 52% satisfaction level), tracking possible drug interactions (72% reported, 60% satisfaction level), determining possible side effects and adverse reactions (72% reported, 52% satisfied), reducing shrink (56% reported, 32% satisfied) and controlling inventory at store level (56% reported, only 24% satisfied).

Marketing tool

The pharmacy computer has not only become a boon to busy pharmacists, it has also apparently become an effective marketing tool being used by chain executives to promote their stores.

According to the survey, 87% of the chains polled said they are using their pharmacy computer systems as a marketing and advertising tool.

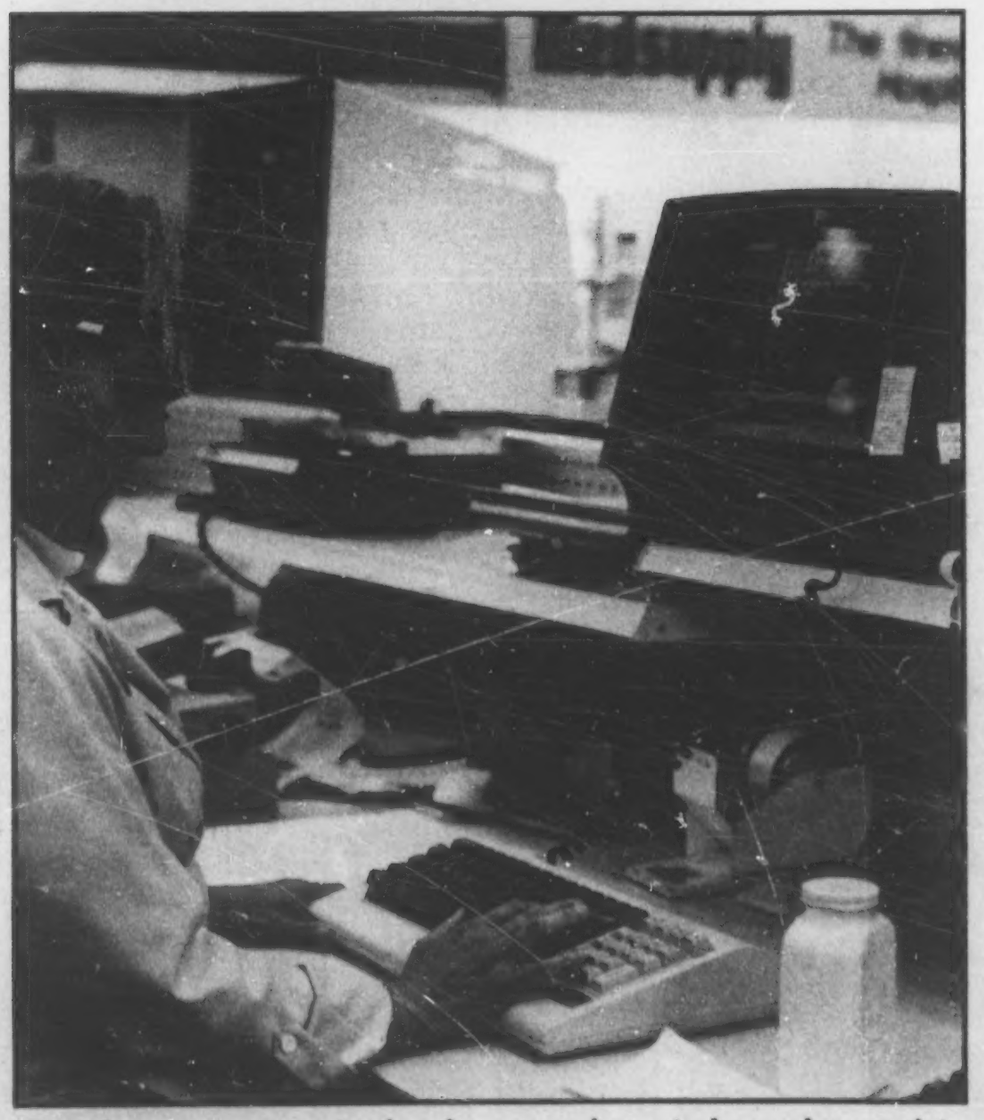
The majority of chains said they were promoting their pharmacy computer systems through newspaper advertising and circulars (reported by 75% and 70% of the chains surveyed respectively). More than half (55%) said they were using television spots to promote their systems while only 25% reported radio as their desired advertising medium and 40% were using direct mail.

Nearly two-thirds of the chains said their ads concentrated on basically four areas that dealt with their pharmacy systems. They included patient safety and security (reported by 68% of the chains surveyed), fast in and out service, efficient processing of prescriptions, and ease of prescription renewal (the last three items were reported by 64% of the chains). To a lesser extent, other advertising themes included the unique service the chain is contributing to the market by having a pharmacy computer and cost savings to the consumer.

No quick move

While it looks as though the pharmacy computer will be a common sight in most drug stores by 1990, the survey revealed that most chains are not moving quickly to integrate it with front-end terminals.

Only 13% of the chains surveyed said they are currently using their pharmacy computer as a front-end computer while an overwhelming majority (87%) said that they are not using their pharmacy computer to record front-end transactions.



The pharmacy computer has become a boon to busy pharmacists and will be a common sight in most drug stores by 1990.

Retailers rate their satisfaction with Rx computer applications

Application	% of Retailers rating this "very important"	% of Retailers "very satisfied with program"
Price Updates	100	84%
Filling in third party forms	96	84
Tracking patient profiles	96	92
Tracing third party billings	84	52
Creating more time for patient counseling	80	48
Gm analysis	76	52
Tracking possible drug interactions	72	60
Determining possible side effects and adverse reactions	72	52
Reducing shrink	56	32
Controlling inventory at store level	56	24
Providing marketing tool to induce new business	48	28
Notifying patients of drug recalls	40	40
Tracking inventory against sales	40	24
Employment incentive	40	48
Labor scheduling	12	16

Source: Drug Store News *1987 Computer Technology Study*

Most frequently used media for Rx computer advertising

Ad medium	% of Respondents advertising Rx computers who use this medium
Rop Newspaper	75%
Circulars/Inserts	70
Radio	25
TV	55
Direct mail	40

Source: Drug Store News *1987 Computer Technology Study*

Of all the features available...price updates received the highest score with all the pharmacists picking this as being the most important.

Use of Rx computer as front end computer

% Using Rx computer as a front end computer also	13%
% Not using Rx computer as a front end computer also	87%

Source: Drug Store News *1987 Computer Technology Study*

Most popular themes for Rx computer advertising

Theme	Percent of respondents who rate as "extremely important to stress" in their ads
Patient safety/security	68%
Fast in & out service	64
Efficient processing of scripts	64
Ease of script renewal	64
Service superior to other pharmacies	48
Service unique to market	36
Cost savings for consumer	12
Ability for consumers to have scripts filled in any stores owned by the company	4
Not available or not applicable	24

Source: Drug Store News *1987 Computer Technology Study*

Computer Technology Survey

INSIDE PHARMACY

Computer revolution reaching the front end

Executives see move as unavoidable to survive and adapt in changing market

By James Frederick

The computer revolution has arrived at the front end of the nation's chain drug stores. The automation wave that swept through retail pharmacy over the past decade has now begun to transform the way all store merchandise is bought and sold.

The transformation to electronic point of sale systems and computerized inventory control has been one of the most expensive and time-consuming tasks the chain drug industry has ever tackled. The effort now being undertaken by dozens of major chains includes the installation of in-store host computers and scanner-ready POS terminals or electronic cash registers capable of recording detailed information on sales by item and category; in some cases, scanners are also being rolled out on a chainwide basis. The effort is costing the industry hundreds of millions of dollars.

Nevertheless, the rewards of such a Herculean effort are becoming increasingly apparent to industry executives. Indeed, most now see such a transformation as unavoidable, a recognition of the need for survival and adaptation in a changing market.

Tremendous opportunity

On a more positive note, most drug chains view the shift to total store automation as a tremendous opportunity to boost store productivity and enhance market position. As one MIS executive put it: "The scanners in our test store are giving us so much information it will take us months or years to figure out what to do with it. But the uses of that information to our store operating and merchandising procedures are almost limitless; we're limited only by our imaginations."

The benefits of an integrated, programmable store automation package don't end there, of course. Taking their cue from the supermarket industry, which is at least 10 years ahead in the use of front-end POS systems, chain drug retailers also point to labor savings, improved customer service, improved store management capability, and enhanced communications between stores and headquarters as among the biggest pluses of automated POS.

"The inventory control aspects of a POS system are terrific, and they can lead us to a DPP (direct product profitability) system. But that's only part of what we're looking for," said John Frazzini, vp of data processing for Perry Drug Stores, earlier this year.

Multi-store test

In a multi-store test of integrated store automation begun last winter, Perry is looking at a full range of uses for store-driven POS. Among them, Frazzini said, are speedier checkout for improved customer satisfaction, the elimination of price stickering of most merchandise, the use of scanners for credit card verification and price lookup, the collecting of customer demographic data, and the reduction of staff hours for cashiers and stock clerks.

Perry is using an upgradable system developed by Stores Automated Systems Inc. (SASI), with numerous enhancements developed by the chain's MIS team. Drawing on that software, the system can track individual sales movement and even gross profit margins for almost every item in the chain's inventory system, comparing performance and profitability on an item-by-item and store-for-store basis.

Like other chains, Perry is aiming at a more responsive, profitable merchandising system with its automation, based on the wealth of sales data its POS test stores can now generate at the registers. "The information is there; now we have to sit down and decide what to do with it," Frazzini said. "Distilling the data we get is the key to success."

Supermarkets ahead

Supermarket chains, which converted to checkout scanners industry-wide more than a decade ago, are still far ahead of most drug chains in analyzing and translating sales data into improved store productivity. Hannaford Bros., for instance, massages scan data for some 17,000 items sold in its 65 supermarkets with a powerful mainframe, generating detailed analysis of gross margin return on investment (GMROI). The data is used to calculate inventory handling costs, turns per item and profit contributions.

Discount chains are also moving aggressively to automate point of sale, merchandising and inventory control functions. K mart, the industry leader, recently allocated $1 billion for a massive store and headquarters automation effort designed to speed checkout lines, enhance corporate-to-store communications, replace and upgrade POS equipment, boost store management capabilities and fine-tune merchandising efforts.

The primary goal, according to K mart officers, is to improve customer service. Thus, the retail giant will spend $500 million on new POS equipment and a satellite communications system for its 2,100 stores. An equal amount will go to software, labor and computer-processing support systems for improved store and headquarters automation.

Preparing for years

Some drug chains have been preparing for the POS information bonanza for years, gearing up their MIS departments in a gradual conversion to computer-aided planogramming based on in-depth item movement reports. One early pioneer in store automation, Pay Less Drug Stores NW, has been generating computerized sales reports for merchandise managers far longer than most chains, using data generated at the checkstand and sent via electronic mail from in-store computers to a headquarters host computer.

"We've used computers heavily in this company to draw up our merchandise plans, and I'd say 95% of the store is controlled through schematics we draw up with the aid of computerized reports," said a Pay Less executive.

In varying degrees, many drug chains have moved beyond pharmacy automation, either through integrated, comprehensive store computer systems which link the front end with the pharmacy and the manager's office, or through POS checkstand systems which track product sales and send the information to headquarters via nightly telephone polling.

Aggressive movers

Leading the revolution are major chains like Walgreens, Perry, Thrifty and Rite Aid, all of which have embarked on total store automation programs. But smaller regional chains, including Big B, Arbor Drugs, Begley, Wellby Super Drug, Fay's and Pay 'n Save, are also moving aggressively to enhance their POS capabilities.

Fay's, for instance, has already installed electronic data capture checkout chainwide, and is now testing scanners. And Arbor will shortly launch its own test of POS systems in "a minimum of three and a maximum of six stores," according to chairman Eugene Applebaum.

"Our computerized sales tracking system is already good, but we think a POS system will make it better," Applebaum said.

While even smaller drug chains like Thrifty/White and Lewis Drug have rolled out sophisticated electronic checkstand systems, the industry has generally been cautious in approaching scanning systems. For many chains, questions still remain about the cost justification and need for scanners in a drug store environment, where customer traffic rarely approaches that of a supermarket. Drug chains are also largely undecided about the relative merits of hand-held vs. slot scanners, and the correct positioning of checkstands following scanner installation for maximum customer traffic flow.

Testing scanning systems

Nevertheless, most chains have left the door open by installing POS registers that are scanner-ready, or easily upgradable to scanning systems. Now, industry leaders like Revco and Walgreens have begun testing scanning systems for eventual chainwide installation.

Walgreens will begin linking scanners to its chainwide Walgreens Information Network (WIN) store automation package next year, with both programs slated to be completed by the early 1990s. And Revco, which recently finished outfitting all 2,050 of its drug stores with scanner-ready electronic cash registers, is now testing various scanning systems.

The industry leader in scanning and store automation, however, is Rite Aid, which now has slot scanners and integrated management computers in more than 500 stores. The systems give Rite Aid stores a competitive edge while boosting productivity in labor and merchandising, according to chairman Alex Grass.

Looking ahead

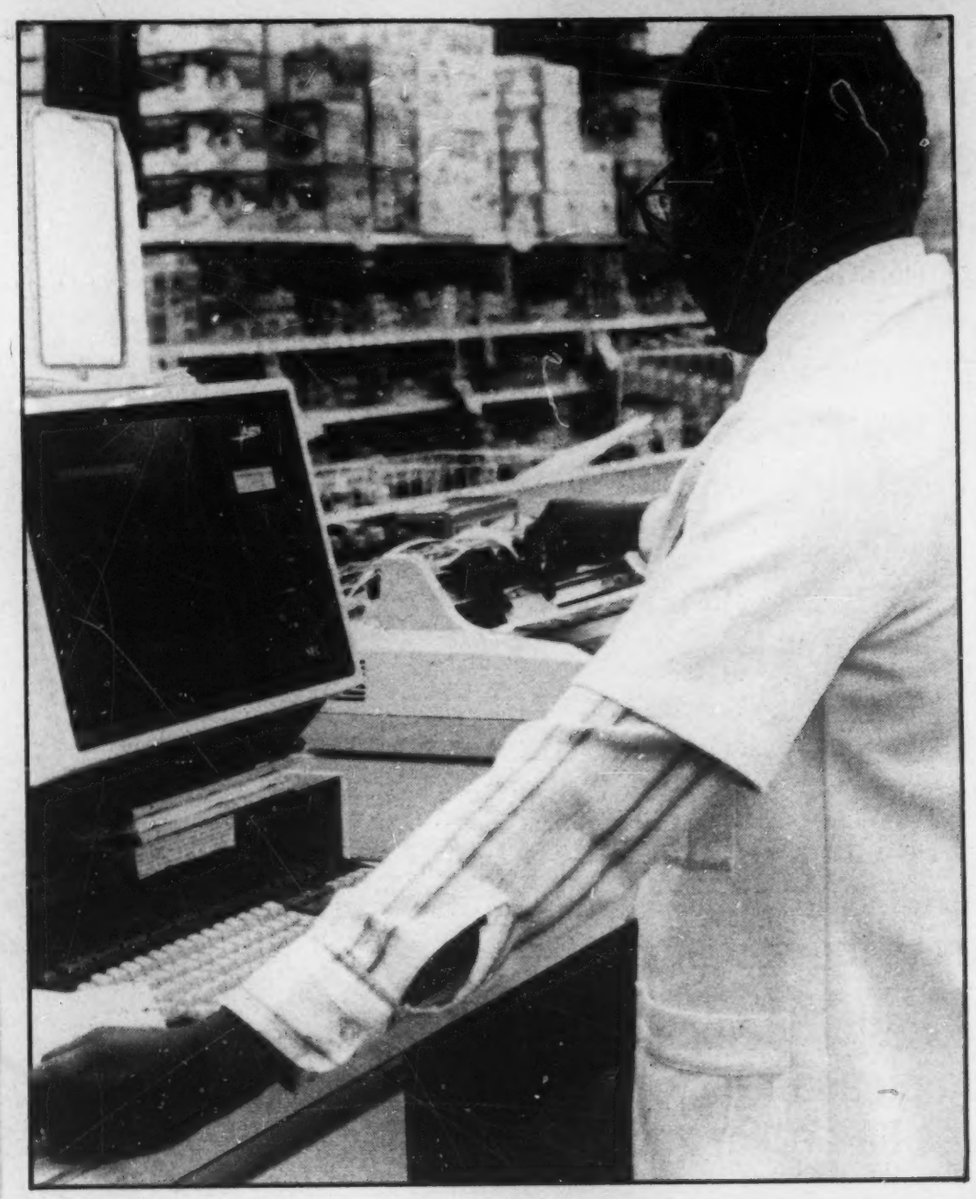
What of the future of store automation? Computer industry forecasters predict that POS technology will function as just one element of a truly integrated store environment. Merchandising, credit authorization, accounting, security and instant auditing will all be tied more closely together, say manufacturers, and computer-to-computer inventory replenishment systems should be common.

Computer software vendors like SASI and National Data Corp., maker of the DataStat-PC pharmacy system, argue that the integrated drug store automation packages they currently provide already tie together many of those functions.

"Each of these functions could benefit from data generated by the others," said Mark Braunstein, group vp and general manager of NDC's Health Care Data Services division. "(But) all of these functions must be automated using one computer, one data base, one highly integrated set of programs and one vendor committed to make the whole thing work."

INSIDE PHARMACY

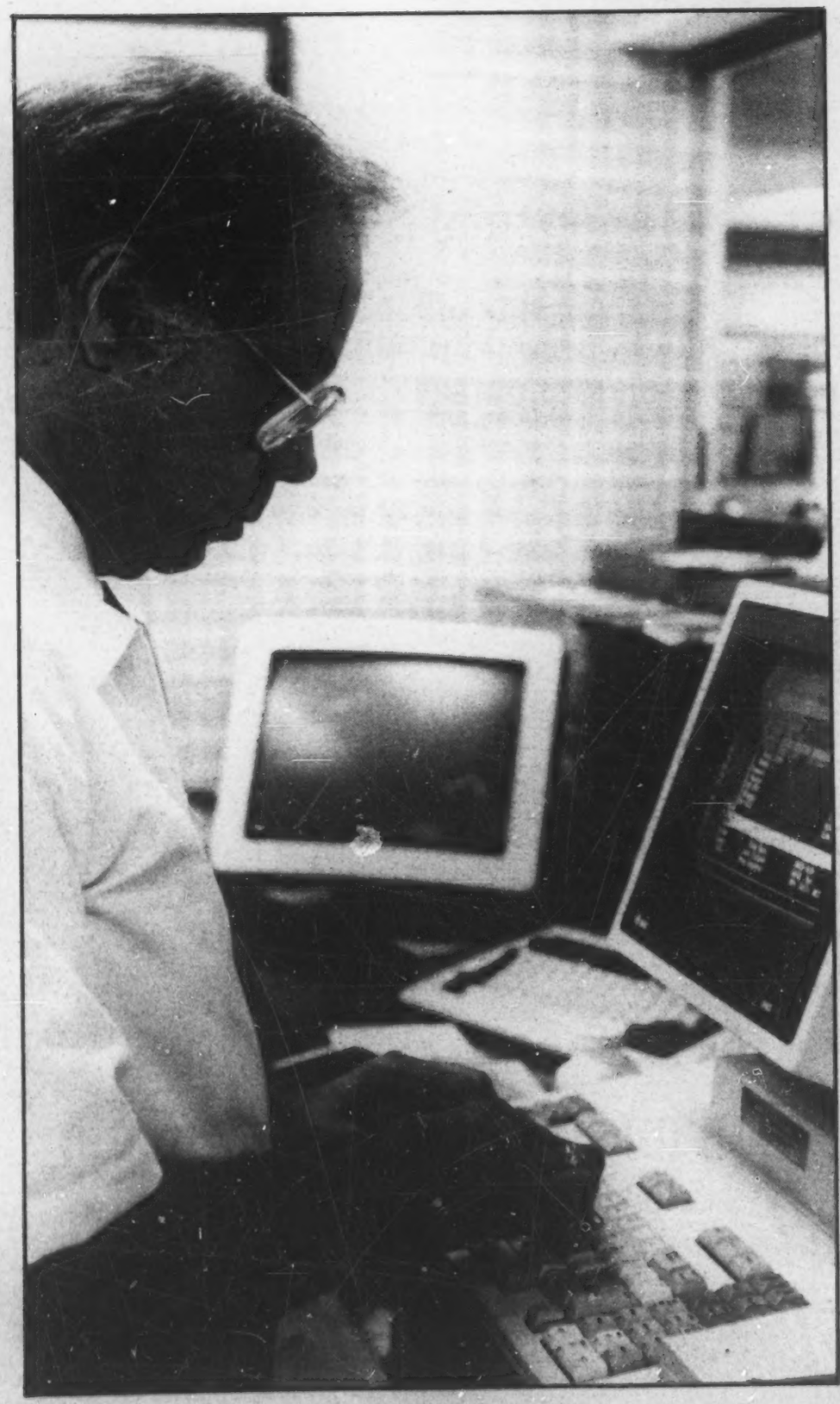
Computer Technology Survey



Percent of chain drug companies using Rx computers as marketing/advertising tool

% Marketing Rx computers = 87%
% Not marketing = 13%

Source: Drug Store News *1987 Computer Technology Study*



'87 Rx computers in chain drug stores

Company	Total Rx depts. 4/87	Rx stores with pcs in pharmacy 4/87	Percent of total 4/87	Total Rx depts. 4/88	Rx stores with pcs in pharmacy 4/88	Percent of total 4/88
Revco, *Twinsburg, Ohio*	1,986	1,153	58	1,986	1,986	100
Eckerd, *Clearwater, Fla.*	1,600	1,500	94	1,600	1,600	100
Rite Aid,+ *Shiremanstown, Pa.*	1,613	869	54	2,030	1,650	81
Walgreen's, *Deerfield, Ill.*	1,275	1,275	100	1,375	1,375	100
Peoples, *Alexandria, Va.*	850	359	42	850	550	65
Shoppers Drug Mart, *Toronto*	570	240	42	600	420	70
CVS, *Woonsocket, R.I.*	442	260	59	500	500	100
Thrift, *Pittsburgh*	400	380	95	425	405	95
Hook, *Indianapolis*	339	339	100	350	350	100
SupeRx, *Cincinnati*	321	321	100	330	330	100
Perry Drug, *Detroit*	216	216	100	250	250	100
Longs, *Walnut Creek, Calif.*	207	205	99	220	218	99
Pay Less NW, *Wilsonville, Ore.*	205	205	100	235	235	100
Boots, *Toronto*	182	79	43	182	110	60
Big B, *Birmingham, Ala.*	171	171	100	200	200	100
Fay's, *Liverpool, N.Y.*	156	156	100	170	170	100
K & B, *New Orleans*	147	112	76	148	148	100
Medi-Save Pharmacies *Baton Rouge, La.*	144	49	34	160	71	44
Pay 'n Save, *Seattle*	134	75	56	145	145	100
Jean Coutu Pharm Escomptes, *Quebec*	106	106	100	130	130	100
Big "V," *Ontario*	92	85	92	100	100	100
Medicare-Glaser, *St. Louis*	89	87	98	90	88	98
Genovese, *Melville, N.Y.*	83	80	96	N.A.	N.A.	N.A.
Dart, *Landover, Md.*	80	0	0	85	30	35
Kerr, *Raleigh, N.C.*	72	72	100	84	84	100
Kent, *Mississauga, Ont.*	70	20	29	72	32	46
Harco *Northport, Ala.*	66	54	82	73	73	100
Snyder, *Minnetonka, Minn.*	57	54	95	60	57	95
Thrifty/White Drug, *Minneapolis*	53	17	32	53	50	94
Taylor, *Louisville, Ky.*	45	45	100	46	46	100
Carls, *Rome, N.Y.*	45	45	100	45	45	100
Standard, *Richmond*	44	44	100	45	45	100
Wellby Super Drug, *Portland, Maine*	44	44	100	49	49	100
Begley Drug *Richmond, Ky.*	43	43	100	50	50	100
Cumberland, *Montreal*	35	35	100	55	55	100
Duane Reade, *New York*	30	12	40	33	33	100
Kinney Drug, *Gouveneur, N.Y.*	29	29	100	32	32	100
May's, *Tulsa, Okla.*	27	27	100	29	29	100
Bartell, *Seattle*	27	15	55	30	30	100
Bill's, *Lafayette, Calif.*	25	0	0	25	25	100
Community Distributors, *Somerville, N.J.*	22	22	100	25	25	100
Crown Drugs, *Advance, N.C.*	19	19	100	22	22	100
A.D. Clark, *Los Angeles*	19	0	0	19	N.A.	N.A.
Peterson, *Oakfield, N.Y.*	18	14	78	18	17	94
Douglas, *North Providence, R.I.*	12	12	100	15	15	100
Austin Drug, *East Meadow, N.Y.*	9	9	100	9	9	100
Kopp, *Altoona, Pa.*	7	7	100	7	7	100
Arthur's, *Hartford*	7	7	100	8	8	100
Defender, *Tucson, Ariz.*	6	6	100	6	6	100
Lewis, *Sioux Falls, S.D.*	6	6	100	6	6	100

+ *Includes Gray/Drug Fair which Rite Aid recently acquired*

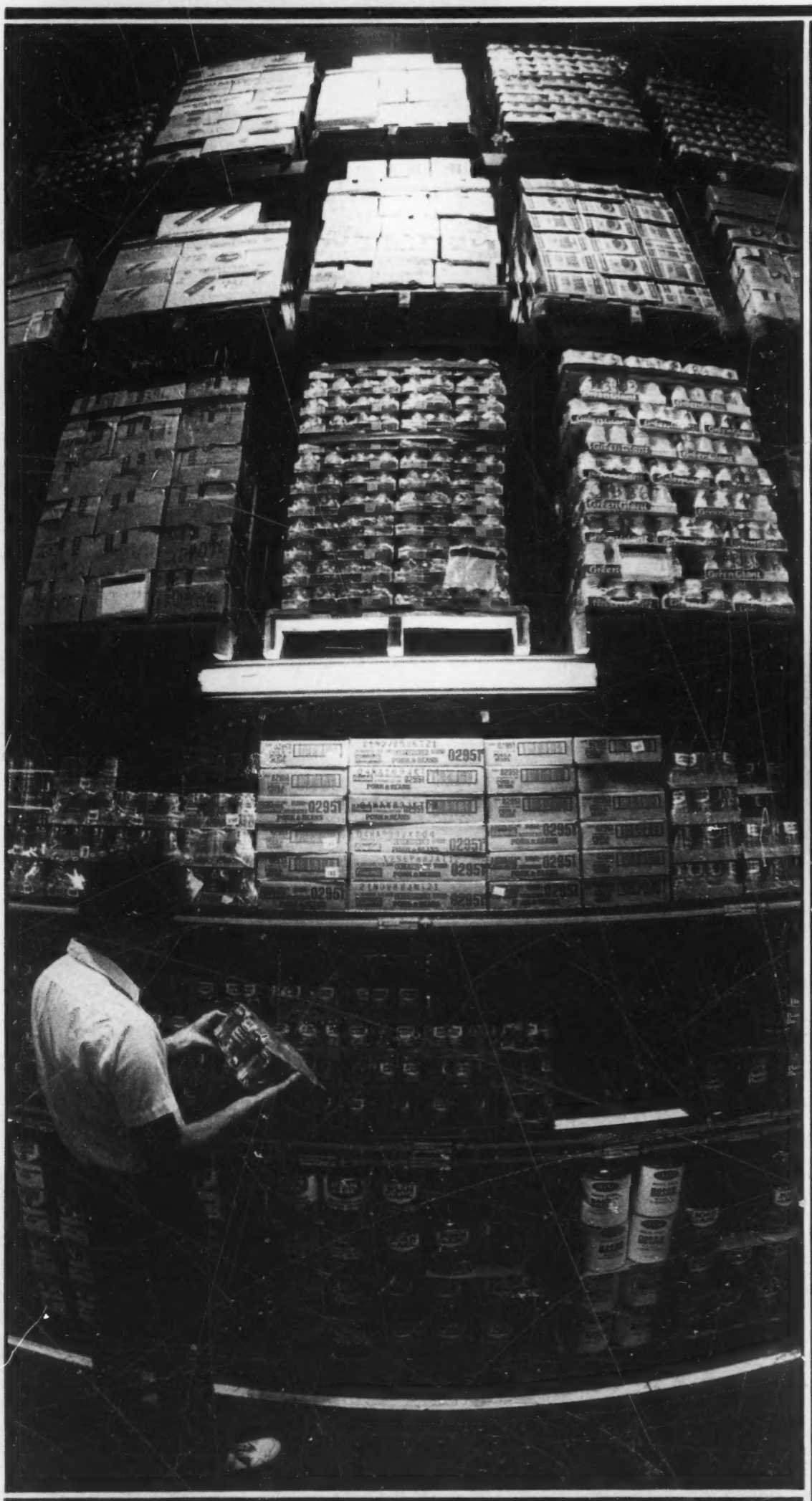
Source: Drug Store News *1987 Computer Technology Survey*

FOOD MERCHANDISING

FM

FOR NON-FOOD RETAILERS

Winter, 1987



Special Report: Makro Wholesale Clubs: Using Groceries to Court Shoppers

Alcoholic Beverages: Drug & Discount Chains are Doing Great with Wine Coolers, Fruit Flavored Wines & Cordials.

Pet Care: The Selling Opportunities are in Accessories and Foods

How K & B Drug adds "zest" to liquor ads

Sami Seasonality Study: What to Promote next Summer.

Food For Thought

New product ideas to pump sales in pet care & alcoholic beverages 5

News Basket

K mart and K & B Drug use Coke to hype store traffic 6

Sami: Category seasonality report

The foods and nonfood to promote next summer 9

FM Profile: Grocery Trends at Makro's Wholesale Clubs

As the nation's seventh largest wholesale club chain, Makro is using service and brand name groceries to court per store food sales of over $40 million a year. 11

Pet Care Sales Trends

How & why drug and discount chains are diversifing their mix of pet care products. Margins and sales are both benefitting 19

Alcoholic Beverage Sales Trends

Overall category sales are down, but sales of wine coolers, imported beers, and liquors and wines made with peaches and other fruits are booming. 23

K & B's Liquor Strategy

Beverage Buyer Stan Bevis: Ways to build sales while maintaining margins 29

Best Selling Categories of Summer

The chart below lists the best selling categories in food stores for the months of June, July and August.

The rankings are based on a special Sami study tracking seasonality growth trends by category. The categories that made the list had a base index of at least 110 for the three years ended in August 1986.

Knowing the index makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.

FOODS AND GROCERIES: BEST SELLERS OF SUMMER

(Averaging three year index ranking)

June

Foods	Index ranking
Fruit pectin	250
Freezer bars	231
Barbecue sauce	155
Canned prepared salads	152
Relishes	145
Iced tea mix/liquids	142
Pork & beans	137
Instant tea	130
Soft drink mixes	126
Mustard	121
Reg. soft drinks	121
Lo-cal salad dressing	120
Juice/juice concentrate	120
Canned meat spreads	120
Canned sausage/frankfurters	120
Lemon/lime juices	123
Meat sauce	118
Pourable salad dressings	118
Chips/snacks	118
Nonfoods	
Insect repellents	235
Charcoal	198
Charcoal lighter	180
Car care products	136
Insecticides	136
Plastic flatware	132
Paper/plastic plates	124
Paper/plastic cups	118
Soil/stain removers	118
Mildew removers	114
Bleach	113
Window cleaners	112
Soap/bubble bath for children	112

July

Foods	Index ranking
Fruit pectin	276
Freezer bars	229
Vinegar/cooking wines	165
Iced tea mix/liquids	154
Barbecue sauce	147
Canned prepared salads	147
Relishes	142
Soft drink mixes	137
Pork & beans	135
Reg. soft drinks	132
Instant tea	128
Lemon/lime juices	123
Canned shrimp	121
Potato chips	121
Mustard	120
Spoonable salad dressings	119
Lo-cal soft drinks	119
Cocktail mixes	119
Meat sauce	118
Nonfoods	
Insect repellents	249
Charcoal	201
Charcoal lighter	183
Insecticides	138
Plastic flatware	136
Car care products	135
Paper/plastic plates	127
Soil/stain removers	124
Paper/plastic plates	123
Disinfectants	113
Bleach	113
Tampons	113
Moist towelettes	112

August

Foods	Index ranking
Freezer bars	186
Vinegar/cooking wines	176
Fruit pectin	170
Iced tea mix/liquids	141
Soft drink mixes	124
Reg. soft drinks	122
Bottled water	121
Lemon/lime juices	119
Instant tea	117
Baking powder/soda	116
Granulated sugar	116
Lo-cal soft drinks	115
Choc candy bars	112
Canned tuna	111
Packaged tea	111
Canned shrimp	110
Packaged gum	110
Cocktail mixes	110
Nonfoods	
Insect repellents	161
Charcoal	135
Insecticides	131
Soil/stain removers	125
Charcoal lighter	122
Food storage bags	122
Rug cleaners	116
Bleach	116
Upholstery cleaners	114
Car care products	113
Mildrew removers	112
Window cleaners	111
Soap/bubble bath for children	110

Source: SAMI Seasonality Report

How Pet Care Performs

With drug and discount stores expanding facings and ads for pet care, sales are up 10% and better in most chains

As drug and discount store chains strive to expand their convenience appeal to local shoppers, more space and more feature activity is being focused on the pet food category.

Buyers for both drug and discount stores say they are continuing to advertise the best selling brands of pet food heavily to lure value conscious shoppers into their stores.

At the same time, most discount store chains are expanding their pet food departments to include a wide variety of pet accessories including many items and brands previously only available before in pet supply stores (see accompanying story).

Drug chains, for the most part, are continuing to rely on Hartz and Sargeant for most of their everyday pet accessories, but some drug chains like Osco, Walgreen's, Revco, etc., are also starting to feature offbeat types of pet accessories like pet transporters or automatic food and water dishes in their ads.

When pet food buyers and store managers talk about pet care, however, they still tend to stress the traffic building potential of the brand name food items like Purina, Carnation, Alpo, Gaines Burgers, 9 Lives, etc.

Most drug and discount store pet food buyers say that the core of their pet food departments is still the food section, and in most chains, foods for dogs, cats, birds and small animals usually accounts for between 50% and 80% of both space allocations and sales.

Drug chains still have a preference for carrying and promoting canned cat and dog foods, especially Purina, Nine Lives, Carnation, Kal Kan and Alpo.

Discount store chains also promote the canned foods often, but they are also inclined to offer especially low prices on the 25-lb. bags of dry dog food as well as the 10-lb. bags of cat food and the large size bags of kitty litter.

Discount chains are also more aggressive in carrying foods and accessories for birds, small animals and rodents. Some also sell live birds and small animals, but in the drug store industry, only one chain

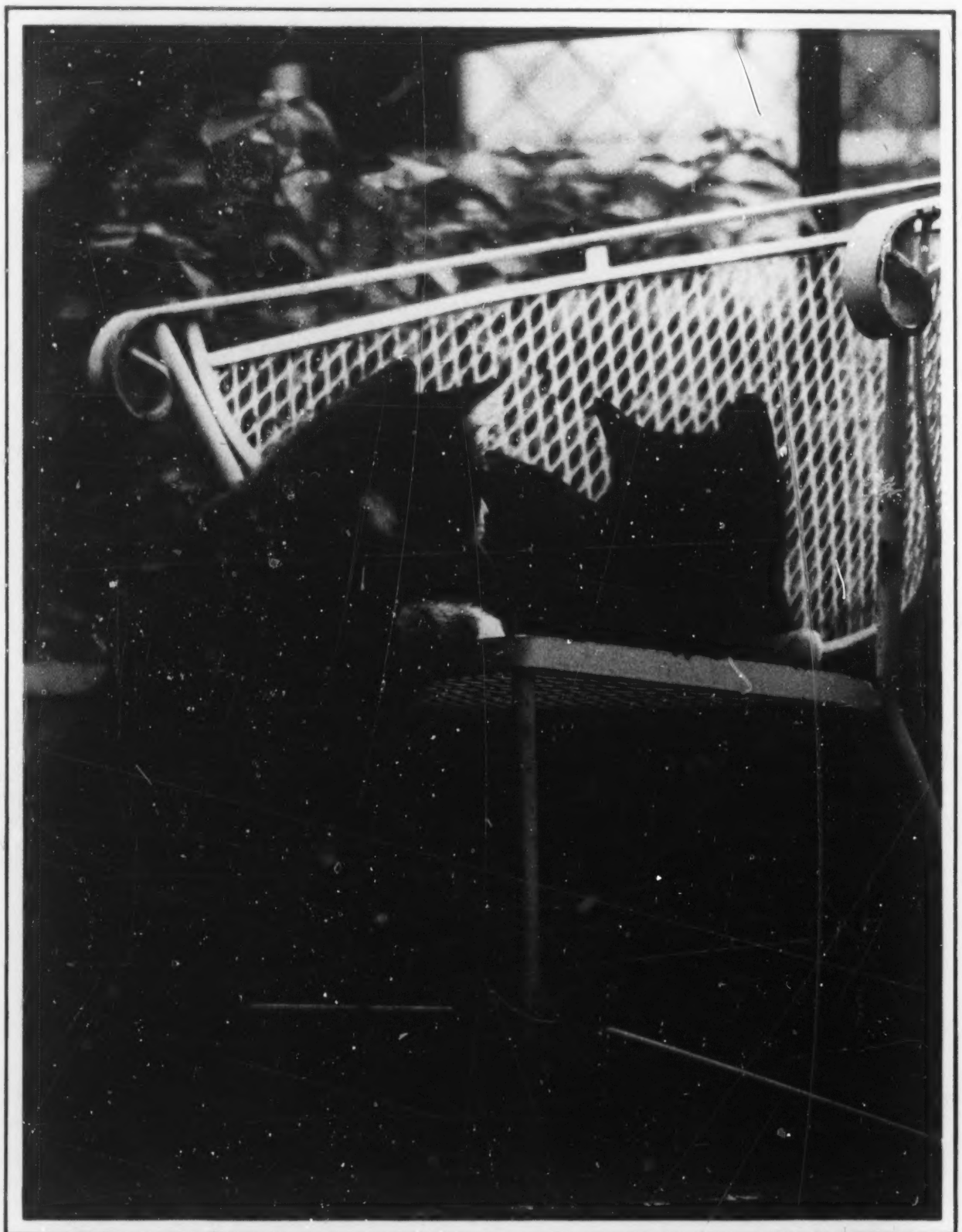


Photo by Ray Garland

Half of all American households now own one or more pets. Nonfood chains are courting that shopper by stressing price, convenience and assortment.

Growth in Pet Food Sales by Retail Outlet

Retail Outlets	1986 Est Sales (billions)	% change	1985 Est Sales (billions)
Food stores	$5.250	3.0%	$5.100
Pet Supply Stores	0.210	17.0	0.182
Warehouse Clubs	0.154	90.0	0.081
Mass Merchandise stores	0.095	10.0	0.086
Drug stores	0.056	11.0	0.051
Total	5.765	4.8	5.500

Source: Sami, Pet Supplies Marketing, Malcolm Knapp Inc.

Estimated Share of 1986 Dog & Cat Food Sales

Retail Outlet Market	Dog/Cat Food $ Sales (billions at retail)	% share of total
Food stores	$5.250	91.1%
Pet Supply Stores	0.210	3.6
Wholesale Clubs	0.154	2.7
Mass Merchandise stores	0.095	1.6
Drug stores	0.056	1.0
Total Pet Foods	5.765	100.0%

Source: FM estimates based on Sami, Pet Supplies Marketing and Malcolm Knapp Inc.

Photo by Ray Garland

There were 52 million pet cats in the nation in 1986, according to the Pet Foods Institute. Owners were out buying everything from food through cedar chip beds.

specializes in the sale of birds and small animals, and that chain, Perry Drug, leases rather than runs its live pet departments.

Buyers for drug chains say they tailor their ads and their planograms to the "convenience minded shopper who appreciates a value." The strategy is to buy the brand name foods on deal and then to advertise them at a super low price to undercut the food stores which have the largest share of pet food sales.

The discount store buyers try to be even more competitive on foods than the drug chains. However because their stores have more space for pet care items, their ads also feature the 25- and 50-lb. bags of dry dog food as well as the best selling brands of 10-lb. kitty litters.

One Wal-Mart manager says that pet foods give his chain an opportunity to "build a low price image" while simultaneously enhancing profits.

"We never promote pet foods at cost," he says. "Instead we try to buy our advertised specials from deal to deal, and although that strategy lets us be super competitive on price, it also lets us make a healthy profit on the category."

According to some sources, Wal-Mart usually makes at least a 10% margin on its featured pet foods, and can make as much as 25% on its private label dog food, Ol'Roy.

Primarily because of the increased emphasis on promoting and expanding pet care sections, drug and discount stores are getting more growth from the pet care category than the food stores, which currently do about 91% of total pet food sales in the country.

According to FM estimates based on research done by Malcolm Knapp Inc., in New York, sales of dog and cat foods in discount stores increased 10% last year to approximately $95 million.

To date, Malcolm Knapp is estimating that pet food sales in discount stores will go up another 8% this year to $103 million.

In drug stores, Knapp estimates that pet food sales increased about 11% in 1986 to $56 million, and should grow another 11% in 1987 to $62 million.

In contrast, SAMI estimates indicate that food stores only increased their pet food volume by about 3% in 1986 to $5.25 billion, and food stores are expected to generate about the same growth in 1987.

The most dramatic growth in pet food sales last year came from the high volume wholesale clubs that are starting to proliferate across the nation.

Malcolm Knapp is estimating that pet food sales in the $8 billion wholesale club industry increased about 90% in 1986 to $154 million.

In 1987, when this fast growth industry is projected to do close to $12 billion a year in sales, Knapp is estimating that pet food sales will increase another 55% to $239 million.

The everyday pet food department in wholesale clubs is already averaging over 80 to 90 ft. Canned foods are usually sold in case lots off pallet displays while 25- and 50-lb. bags of dried food are also merchandised off pallets or ends.

In suburban and rural markets, discount chains like Wal-Mart and K mart are also featuring 25- and 50-lb. bags of the leading brand dog foods as well as large size cat foods and kitty litters.

Buyers say that when they advertise a well-known brand like Carnation or Purina at a competitive price, they can usually sell through their ordered quantities in "less than two weeks."

Health craze hurts liquor sales

Spirit sales are down, wine and beer are up slightly, but cooler sales are exploding, creating new users and copy cat brands

Growth in the alcoholic beverage category has not been strong in the last few years. The interest most Americans now have in health, fitness and well being is turning most consumers away from alcoholic beverages to lighter and healthier drinks.

In the distilled spirits segment of the liquor category, total case shipments into the U.S. were down by 6.6% in 1986, according to IMPACT, the industry's leading research publication.

IMPACT reports that "each and every brown segment fell last year, with bourbon, scotch, and the smaller volume Irish whiskey segment posting double-digit declines of 10.4%, 11.3% and 23% respectively.

IMPACT tracked blended whiskey shipments down by 9.3% while the Canadian whiskeys were down by 4.9%.

White good shipments also fell, but not as drastically. IMPACT reports that white good shipments were down a total of 5.5% in 1986. Rum dropped the most dramatically, down 9.9% while gin was down 7.1% and vodka was down 3.5%.

Tequila dropped 2.6%. Brandy dropped 7.9% while cocktails/mixed drinks dropped 20%. Cordials and liqueurs were flat.

If cooler sales are included in the wine segment, than that category was slightly up in 1986. Beverage Industry, one of the industry's major trade publications, says that total wine sales were up 1.7% in 1987, and that coolers led the surge with a 57% increase in shipments.

However IMPACT treats coolers as a separate category, and without counting them as part of the wine category, IMPACT reports that wine shipments were down a total of 5.5% in 1986. Nineteen eighty-six wine sales were at the lowest volume since 1980, IMPACT says.

In contrast, IMPACT is reporting that case shipments of the coolers, which in IMPACT's definition include spirit and malt coolers as well as wine coolers, were up 71.2% in 1986, a "spectacular" increase in a declining market.

In white goods, imported vodka has been out-performing the liquor

Top 10 Domestic Brands of Beer

Brand	1986 Est total beer market share (Domestic brands)	Share point chng '86 vs '85	Category segment	Est share of domestic segment sales	Share point chg '86 vs '85
1. Budweiser	25.8%	0.7	Premium	57%	3
2. Miller Lite	10.3	—	Light	46	(3)
3. Miller High Life	5.6	1.1	Premium	12	(2)
4. Coors	4.3	0.4	Premium	9	1
5. Busch	4.1	0.6	Popular	21	3
6. Old Milwaukee	4.0	0.1	Popular	20	(1)
7. Coors Light	3.8	0.5	Light	17	1
8. Budweiser Light	3.5	0.5	Light	16	2
9. Michelob	2.9	(0.2)	Super Premium	66	—
10. Milwaukee's Best	2.6	1.3	Popular	13	3
Total Top 10 share	66.9%	1.3	—	—	—

Based on unrounded data. Additions of columns may not agree because of rounding.
Source: IMPACT Databank

Top 10 Imported Beer Brands

Brand	1986 Est share	Share Point chng (86-85)	Country of origin
1. Heineken	29.3%	(2.3)	Netherlands
2. Corona Extra	11.1	6.5	Mexico
3. Molson	10.7	(1.3)	Canada
4. Beck's	9.2	0.1	West Germany
5. Moosehead	4.7	(0.4)	Canada
6. Labatt's	4.5	0.1	Canada
7. St. Pauli Girl	3.5	(0.5)	West Germany
8. Amstel Light	2.7	0.5	Netherlands
9. Tecate	2.1	0.2	Mexico
10. Dos Equis	2.1	(0.1)	Mexico
Total Top 10 share	79.8	2.8	—

Source: IMPACT Databank

Trends in Beer Consumption

Segment	Millions of beer barrels 1986	% chng	Share of total beer sales '86 Share	'85 Share
Premium	80.0	0.0%	43.00%	43.70%
Popular	44.7	0.0	24.00	24.40
Light	41.1	9.6%	22.10	20.50
Imports	8.8	11.6	4.70	4.30
Super Premiums	5.9	(21.3)	3.20	4.10
Malt Liquors	5.6	1.8	3.00	3.00
Other	0.7	0.0	0.03	0.03
Total	186.8	2.2%	100.00	100.00

Source: Beverage Industry & IMPACT Databank

segment as a whole.

According to IMPACT's research, case shipments of imported vodkas increased 32.4% in 1986.

Absolut's sales were up 39.7%; Stolichnaya was up 31.4%; and Finlandia was up 18.8%. Imported vodkas now have a 6% share of the total vodka segment.

For the first time in three years, IMPACT also reports that the beer industry was up in 1986, by a modest 2.2% gain in barrels shipped.

The growth in the beer segment, however, was coming entirely from light beers, up 9.6% in 1986 and imported, up 11.6%. The rest of the category was either flat or down.

Top 5 Brands of Domestic Wine

Brand	1985 market share
1. Gallo	7.3%
2. Carlo Rossi	6.7
3. Almaden	3.6
4. Ingelnook	3.2
5. Taylor California	2.5

Source: Beverage Industry

Top 5 Brands of Imported Wine

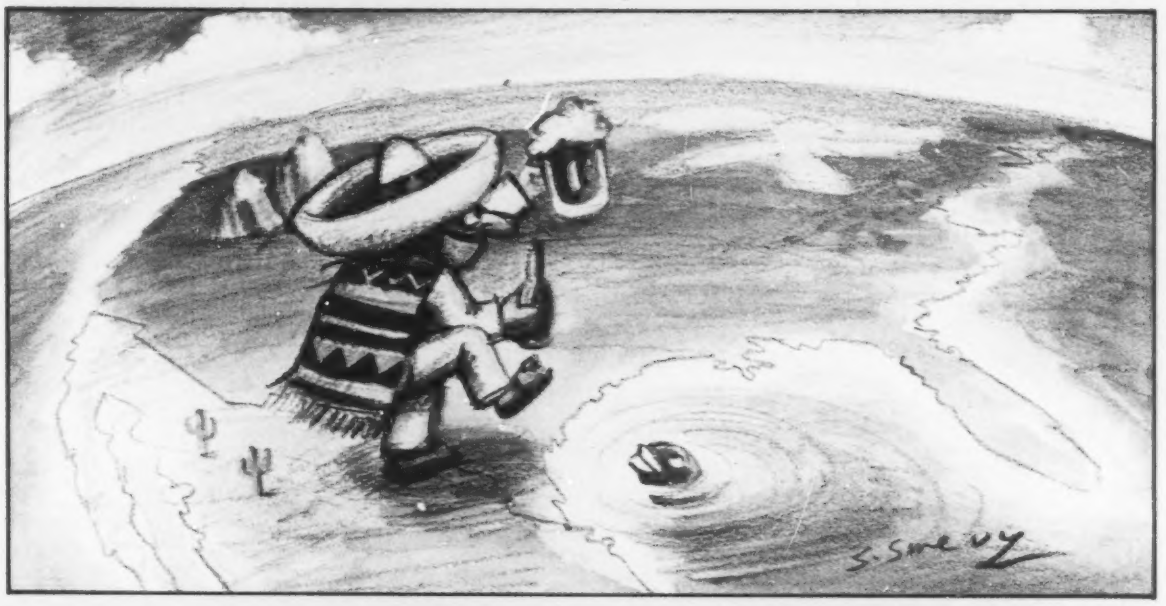
Brand	1985 market share
1. Riuniti	18.0%
2. Cella	4.4
3. Canei	4.2
4. Bolla	3.1
5. Folonari	2.9

Source: Beverage Industry

Trends in Spirit Consumption

Type of Spirits	% change in cases shipped 1986 vs 1985	Share of market 1980	1985	1986
Bourbon	(10.4%)	15.0%	11.5%	11.0%
Blends	(9.3)	9.0	7.0	6.8
Scotch	(11.3)	10.0	9.3	8.8
Canadian	(4.9)	12.0	11.8	12.0
Irish	(23.0)	—	0.2	0.2
Total Brown Whiskies	(8.8)	46.0	39.8	38.9
Gin	(7.1)	10.0	8.7	8.6
Vodka	(3.5)	22.0	22.7	23.4
Rum	(9.9)	7.0	8.3	8.0
Tequila	(2.6)	2.0	2.2	2.3
Total White Spirits	(5.5)	39.0	41.9	42.4
Brandy	(7.9)	4.0	5.2	5.2
Cordials/Liqueurs	—	8.0	11.3	12.1
Cocktails/Mixed Drinks	(20.0)	2.0	1.7	1.5
Total Specialties	(4.1)	15.0	18.3	18.8
Total Distilled Spirits	(6.6)	—	—	—

Regional preferences make Mexican beer "hot"



The drug and discount store buyers who are managing the alcoholic beverage category report tremendous success in 1986 and 1987 with several regional beers.

In the northeast, buyers say their sales of Molson Golden and Moosehead, both Canadian imports have been soaring. In the west and southwest, buyers say that the Corona Mexican beer is the hottest thing to come down the pike since the Jalapeno pepper.

Liquor buyers for drug and discount chains with stores in the west say that Corona beer sales are "escalating."

In some Texas markets, buyers say that regional sales of Corona have increased "more than 300%," and that Corona is starting to outsell Heineken, the country's number one imported beer.

"Corona is a Mexican beer which is why it sells so well in states like Texas and Louisiana," says one buyer. "In the northeast, Molson and Moosehead, which are Canadian beers do especially well.

"People today are traveling more," said one buyer, "and they're also going to more ethnic restaurants, Mexican, Chinese, Japanese, etc. They're being exposed to different types of imported beers in these surroundings, and then they discover they like them, and they seek them out in retail stores.

"There's also more of a status appeal in the imported beers. People who want to make an impression will order a Heineken or a Moosehead rather than a Budweiser or an Old Milwaukee."

Merchandising liquor means promoting coolers, low calorie drinks, sweet drinks

Drug and discount chains are expanding facings and ads for coolers, light and imported beers, and fruit flavored liqueurs

The recent trend among drug and discount chains that carry beer has been to expand facings and feature promotions for the fast growing imports and lighter beers.

Liquor buyers for drug and discount chains say their best sellers in beer this year are the Mexican beers like Corona, Dos Equis, Tecate, and Carta Blanca; the Canadian beers, especially Moosehead and Molson; the West German beers, Becks and St. Pauli Girl; and category leader, Heineken, from the Netherlands.

In domestic beers, the country's best seller was still Budweiser, which had a 25.8% share of the entire domestic beer market in 1986. Budweiser, even though it competes in the premium category of domestic beers which was flat in 1986, gained another 0.7 share points last year.

Miller Lite in 1986 continued to hold onto the No. 2 share spot among domestic beer, according to IMPACT, which also reports that Miller Lite had a one tenth of a point share gain in 1986.

In the wine category, most drug and discount store retailers responded to the growth in cooler sales by eliminating facings on their wine wall for table, dessert and sparkling wines, and turning it over to the top four and five brands in the cooler category.

More chains are also now promoting the coolers instead of liters or the popular California and Italian jug wines.

Most buyers say that coolers have caught on with Americans because they are lower in alcohol which appeals to consumers who want to moderate their drinking. They are blended with fruit drinks to attract the health conscious consumer, and they are portable and easy to serve, as well as sweeter than traditional wines.

The success of the wine coolers has also led to the emergence of several other new segments that buyers report are selling well. These are the fruit flavored wines like the natural peach and raspberry wines from Riunite; the rootbeer and ap-

Nonfood chains are tailoring their beer departments to the best selling segments: light beers, imports, best selling brands and regional favorites.

Top 10 Best Selling Liquor Brands

Brand	% chng thousands of 9 liter cases	1986 market share	Share point change 1986 vs 1985
1. Bacardi Rum	(6.9)	4.6%	(0.2)
2. Smirnoff Vodka	(0.6)	4.1	0.1
3. Seagrams 7 Crown	(9.0)	2.7	(0.2)
4. Canadian Mist	(5.5)	2.3	—
5. Popov Vodka	3.9	2.3	0.2
6. Jim Bean	(6.1)	2.2	(0.1)
7. Dekuyper Liqueurs	38.0	2.2	0.7
8. Jack Daniels Black	(3.8)	2.0	—
9. Seagrams Gin	(3.0)	1.8	—
10. Dewar's	—	1.6	0.1
Top 10 share	(1.4)	25.8	0.6

Based on unrounded data. Addition of columns may not agree because of rounding.
Source: IMPACT Databank

ple schnapps from Dekuyper, and the peach and piña colada schnapps from Leroux.

Most manufacturers also are now either testing or preparing to launch similar types of new products like the Christian Brothers low calorie fruit flavored brandies, the new Jim Beam Fletcher & Oakes spritz flavored prepared cocktail, the wine based fruit flavored Tropic Freezer prepared cocktails from Heublein, the new Jack Daniels fruit flavored mixed cocktails, etc.

"Peach flavored wines like Riunite appeal directly to the same consumer who supports the wine cooler category," says Stan Bevis who buys alcohol and other beverages for the 145 unit K & B chain in New Orleans.

Bevis, whose beverage department is profiled in this issue, says that Riunite Peach sales have been "excellent" in K & B stores this year.

Along with coolers, one of the few bright spots in a tough category.

In different parts of the country, other retailers also say they are building more floor displays and using more endcaps for the sweeter and fruitier drinks.

More chains are also expanding their merchandise mix to include strong selling regional favorites like Mexican beers in the south and western parts of the country and Canadian beers in the Northeast.

Many others are continuing to cross merchandise party goods, snack foods and assorted bar accessories in their liquor departments to encourage incremental sales.

A few, like K & B, Longs', etc., are dressing up their wine departments with artifacts like trellises and vines.

And many chains are also giving more ad and floor space to the best selling brands within the more traditional categories.

"If I'm going to promote vodka," says one buyer for a West Coast chain, "I'll promote the most popular brand like Absolut and Stolichnaya.

"If I'm promoting tequilla, it'll be Jose Cuervo or maybe Sauza."

At K & B, Bevis says he'll use a best selling brand like Jack Daniels to make consumers aware that K & B has the top brands at the best prices.

"When a category is flat, the best thing you can do," says one buyer, "is identify the top sellers, and promote the hell out of them."

The best way to attract the liquor shopper: feature the best selling brands at a super hot price and make the department "highly visible."

Trends in Wine Consumption

Segment	Millions of 9 liter cases 1986	% chng	'86 share of total wine sales	Share point chng 86-85
Table Wines	147.1	(7.4%)	75.1%	(1.7)
Sparkling Wines	18.7	(4.5)	9.5	0.2
Dessert Wines	14.7	3.2	7.5	0.6
+ Special Natural	10.9	1.9	5.6	0.4
Vermouth	2.7	(6.9)	1.4	—
+ + Imported Specialty Wines	1.8	104.7	0.9	0.5
Total	195.9	(5.5)	—	—

+ Wines like Thunderbird, Boone's Farm
+ + Imported sangria and other fruit flavored wines
Unrounded data. Additions of columns may not add up because of rounding
Source: IMPACT

Top 10 Best Selling Cooler Brands
(wine, malt and spirit coolers)

Brand	1986 % chng 9 liter cases	Type of cooler	Est 1986 market	Share point chng '86-'85
1. Bartles & Jaymes	126.7%	wine	23.5%	5.7
2. California Cooler	11.2	wine	16.4	(9.0)
3. Sun Country	100.0	wine	13.8	1.9
4. Seagram's Wine Coolers	132.5	wine	12.8	3.3
5. White Mountain Cooler	112.5	malt	9.4	1.8
6. Calvin Coolers	103.6	wine/malt	7.9	1.2
7. 20/20 Wine Cooler	—	wine	2.2	(1.6)
8. Dewey Stevens	+	wine	2.1	—
9. La Croix Sparkling Cooler	23.5	malt	1.4	(0.5)
10. Champagne Coolers	+	malt	1.3	—
Top 10 Share of market	84.6	—	90.8	6.2
Total Coolers	72.0	—	100.0%	—

+ In first year of distribution
Source: IMPACT Databank

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DRUG STORE NEWS

Vol. 9/No. 20 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. October 12, 1987

Eckerd considers selling 31 stores

By David Vaczek

CLEARWATER, Fla.—Eckerd Drug is auctioning the 31 stores in its three most northern states of New Jersey, Delaware and Maryland, chain sources told *Drug Store News*.

The chain is offering the stores for sale before deciding if it should instead launch an expansion program in the profitable Delaware-New Jersey district, said Gene Ormand, an Eckerd spokesman.

Pharmacists and store managers were advised through letters and meetings last month that the 1,600-store chain will pursue growth there if it fails to receive the right price by the end of October, Ormand said.

"Prior to the implementation of a future growth strategy for the district, it was decided the company would consider offers from interested parties," Eckerd advised local employees.

"We will either accept an offer or commit to further investment in these key markets," employees were told.

The district—700 miles from Eckerd's nearest warehouse in Charlotte, N.C.—has been the target of purchase offers for years, with the offers picking up during the past two years, particularly since the chain's April, 1986 management leveraged buyout, Ormand said.

Since the buyout, Eckerd has emphasized managing as-

Continued on page 114

Dayton Hudson executive is chosen to head Revco

By James Frederick

TWINSBURG, Ohio—Sid Dworkin, who co-founded and guided Revco D.S. to its position as the nation's largest drug chain, has resigned as Revco chairman and severed all connections with the company. Boake Sells, former president and coo of Dayton Hudson Corp., has replaced Dworkin and former Revco ceo Bill Edwards as both chairman and chief executive.

Edwards, who succeeded Dworkin as Revco's chief executive last April, will remain as president and chief operating officer.

Also leaving the company is Marc Dworkin, executive vp and son of Revco's founder. The Dworkins have agreed to sell their common stock back to the company in exchange for certain Revco assets, in-

Continued on page 114

Boake Sells (pictured) says Revco's board has charged him with transforming Revco 'into an absolutely first-rate retail company in the United States, not just a first-rate drug retailer.'

Dworkin's departure signals an ending and a beginning

TWINSBURG, Ohio—The departure of Sid Dworkin, 66, signals a major turning point for the 31-year-old Revco drug chain as it moves beyond its entrepreneurial roots. As co-founder, president and chairman, Dworkin helped define Revco's discount pricing strategy and basic, convenience-oriented approach to drug store retailing. He was also instrumental in the chain's unprecedented growth in the 1970s and 1980s into the nation's largest drug chain with over 2,000 stores in 29 states.

Dworkin also steered the company into an aggressive diversification program over

Continued on page 114

Thinks it is a good investment:

Grass family eyes Farm Fresh

NORFOLK, Va. — The family of Rite Aid's Alex Grass wants to gain control of the 114-store Farm Fresh supermarket and convenience store chain, based here.

They already own about 7 percent of Farm Fresh's 13 million outstanding shares of stock, and filed a 13-D form with the Securities and Exchange Commission Sept. 24. Grass did not say how much he would pay in a possible tender offer.

"Farm Fresh is very desirable to us," said Grass, chairman and president of Rite Aid Corp., who stressed that the family's interest is as a personal investment, unrelated to Rite Aid.

"We believe it's an undervalued situation. The company has a large share of market in the area in which it operates. We believe its profitability can be improved."

As an example, in Virginia's Tidewater area, Farm Fresh commands an approximate 40 percent share of market, according to Larry Dobrinsky, Farm Fresh vp and treasurer.

Farm Fresh presence
Va.
55*
49
N.C.
10*
Tinee Giant convenience stores
Farm Fresh supermarkets
Source: Drug Store News research and Farm Fresh
*The Farm Fresh board announced Sept. 30 it will operate all Giant Open Air stores under the Farm Fresh name.

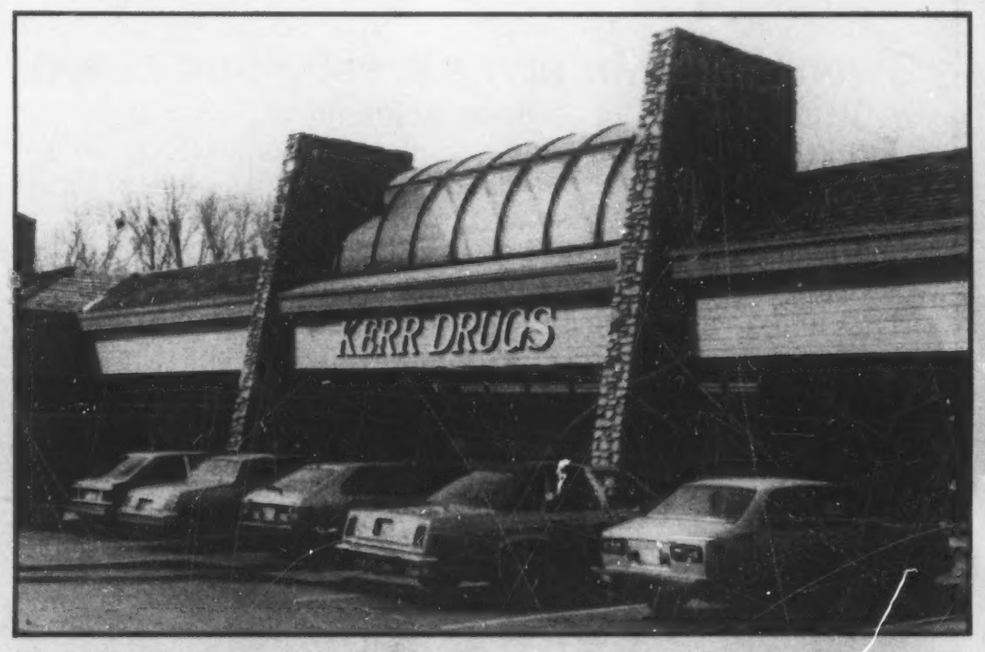
Company in transition

Farm Fresh is a company in transition. A new management team was announced in August, following the retirement of president Eugene Walters in June. "His style is different from ours," Dobrinsky said. The shift to "participatory management rather than a one-man show," he added, "has been good for everybody."

The SEC filing indicates the Grasses may seek control through a negotiated deal with Farm Fresh or a possible acquisition of the company. They urged the company to negotiate.

If Farm Fresh does not choose to negotiate, the filing

Continued on page 114



Kerr Drug plans to maintain its recent pace of opening 14 to 15 stores a year as part of a drive to strengthen its position in current markets and take advantage of new market opportunities.

Kerr in expansion flurry, opening nine units this fall

By Susan Ball

RALEIGH, N.C. — Kerr Drug is opening nine new stores this fall during a 90-day blitz that will raise the North Carolina chain's roster to 83.

Since early September, Kerr has set an unprecedented blistering pace for itself through the fall. The chain opened three stores, including two in Charlotte on Sept. 23 and one in Hope Mills on Sept. 9. Another opening was slated at presstime for Oct. 5 in Southern Pines. Five more stores are scheduled for launch soon: in Charlotte and Chapel Hill on Oct. 12; High Point, Oct. 26; another in the Charlotte market, Nov. 15; and Garner, Nov. 20.

The bunching of openings was not by design, but rather due to a series of construction delays and speed-ups, according to Chris Woody, vp-real estate.

"A whole lot of new shopping centers, especially in Charlotte, are opening up. We're getting a lot of opportunities," added Johnny Kerr,

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LATE NEWS

- PHOENIX — SupeRx Corp., the 47-store chain headed by Gerry Wolken, has signed an agreement to buy three Walgreens stores in Alabama—two in Huntsville and one in Dothan. The purchase will bring the number of stores in the chain to 50.
- SHIREMANSTOWN, Pa. — Rite Aid drug stores posted 47% higher sales and 19% higher net income in the second quarter ended Aug. 29. Sales rose to $584.1 million compared with $397.9 million in the year-earlier period. Net earnings rose to $15.1 million.
- MEDINA, Ohio — Discount Drug Mart will open its third new store of the year this month in Euclid, a lakefront suburb of Cleveland, bringing its Cleveland-area store total to 24. Another unit will open next February in the Akron area.

NEWS IN BRIEF

Wal-Mart delays Hypermart USA opening

BENTONVILLE, Ark.—Wal-Mart has delayed the opening of its joint venture hypermarket with Cullum Companies until the first quarter of 1988.

The 220,000-square-foot Hypermart USA was originally slated to open by the end of 1987 in Garland, Tex.

The delay is reportedly intended to give Duane Naccarato, president of Hypermart USA, time to work out inventory and management procedures, and to hire an executive who can backup the managing director of operations.

It will be among the largest retail spaces of any kind in the United States, and combine an expanded full-line Wal-Mart store and a large-scale, full-line grocery store under one roof.

Separately, Wal-Mart has broken ground on a Hypermart USA store in Topeka, Kan., which will be run solely by the fast-growing discounter. It will use wholesaler Fleming Foods to set up and stock the grocery area.

Fred Meyer prototypes test Scan-Track

PORTLAND, Ore.—Fred Meyer, the West Coast combo and mass merchandiser chain, has installed eight MS260 Scan-Trak bar code scanners in its new prototype stores in Marysville, Wash., and Klamath Falls, Ore.

The scanners will be used in the pharmacy, record and tape and photo/electronics sections for the chain's portable registers, "moving them from department to department depending on need," according to Peter Stenhjem, senior systems analyst with Fred Meyer. The only sections in the store that are not scanning are soft goods and apparel, he added.

Stenhjem said the chain plans to install Scan-Trak, which is manufactured by Metrologic Instruments, in several more stores patterned on the prototype later this year.

Arbor wins Gold Link Award for ad

TROY, Mich.—Arbor Drugs won first place, newspaper category, in the annual NACDS-*Woman's Day* Gold Link Awards for its advertisement headlined, "We're not better because we're bigger. We may be bigger because we're better."

The ad, created by Kolon, Bittker & Desmond, won for customer service/store image advertisement among large chain store advertisers.

Arbor is the second-largest retail drug store chain in Michigan, with 70 stores located throughout the southeastern part of the state.

Owens & Minor earns prestigious award

RICHMOND, Va.—Owens & Minor, the drug and medical/surgical supply wholesaler, has been awarded *The Wall Street Transcript's* Gold Award for its outstanding performance in the last 12 months.

In announcing the award, the business and finance publication cited the company for its leadership in the industry, and for "a clearly-focused, single-minded strategy centered on the hospital segment of the market [that has] produced notable results in recent quarters."

The *Transcript* gave its silver award to the management team of Alco Health Services, and bronze laurels were taken by McKesson Corp.

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Coming to Dart after its narrow escape from a Chapter 11 bankruptcy, Mike Lewis, new senior vp-operations, will oversee the chain's campaign to build store-level morale and discipline and strengthen Dart's merchandise presentations and housekeeping.

Dart's new senior vp-operations: 'a people-oriented motivator'

LANDOVER, Md. — Dart Drug has named Mike J. Lewis, a former executive with the Pic N' Pay shoe store chain, as senior vp-operations.

Stephen Hansbrough, Dart's chairman, said Lewis brings qualities that Dart has sought, as a people-oriented executive with a strong store operations background.

"His basic philosophy on running stores is in line with ours from a presentation standpoint," said Hansbrough, who praised Lewis as "a motivator" and "a stickler for clean stores" and customer service.

Trying to polish image

Rebounding from the second reorganization of its debt since its 1984 management-led leveraged buyout, Dart is trying to recast its image with consumers in the highly competitive Washington, D.C., marketplace, and become "a people-oriented company." For the stores, Dart wants better store housekeeping and a friendlier atmosphere.

Besides his operational strengths, Lewis also brings a background in general merchandise that will contribute to the 86-store chain's goal of bolstering this product segment. The chain sees growth opportunities in such departments as housewares, school and office, and soft goods.

Such merchandise will also allow Dart — traditionally known for its high exposure in front-of-store general merchandise — to clearly position against the fierce rivalry of supermarketers Giant Foods and Safeway, as well as traditional drug chains Peoples and Rite Aid.

Lewis took the post last month, replacing Bob Goldstein, who resigned after seven years in the job.

Formerly of Pic N' Pay

Lewis was vp of general merchandise and manager of Pic N' Pay's Barett division, a 119-store chain selling women's shoes. Pic N' Pay is a 700-store shoe retailing business based in Charlotte, N.C.

He will join the Dart executive committee, which includes Hansbrough; Ron Hirschel, executive vp; Darryl Bryant, senior vp-finance; and Al Nehman, senior vp-merchandising.

Failing to meet debt payments imposed by its $160 million LBO, Dart gained a last-minute reprieve in August when creditors agreed to a refinancing plan that includes a swap to bondholders of Dart common and preferred stock.

Hybrid deep discounter to debut

SAN DIEGO, Calif. — MedClub, another hybrid deep discount format, will open its first store here in early 1988.

Still in a formative stage, MedClub will be "designed for health care providers and health care consumers," Creighton Lawhead, vp-marketing, toid *Drug Store News*.

Modeled primarily after deep discounters and membership warehouse clubs as a possible 50,000- to 80,000-square-foot store, MedClub expects to offer "quality products from recognized national manufacturers at the lowest price possible," Lawhead said.

Merchandised on a store-within-a-store format, MedClub will offer a pharmacy, H&BA, OTC, back-and-front office medical and dental supplies, and a physical fitness and wellness area, which will include clothing, vitamins and sports equipment. As Lawhead explained, MedClub will stock "everything from aspirin to X-ray."

As with deep discounters and membership warehouse clubs, MedClub will use a low gross margin base, and the company will institute some type of membership policy, Lawhead said.

The company, founded by president Richard Lonnecker and chairman Dr. Fred Spong, is still setting its product mix and sku counts, said Lawhead. Because MedClub is still developing its concept, Lawhead said he could not give a space allocation breakdown for each category, nor the anticipated yearly store sales.

MedClub expects to open its first store during the first quarter of 1988, with future expansion plans riding on the success of the initial store. However, Lawhead said it is conceivable the company could roll out several stores a year.

Lawhead said he could not disclose the dollar amount required to open the first store. He said, however, that venture capital is funding the company.

For the first store—as well as future stores—the company is looking for sites located in a typical retail environment, with easy access and ample parking, Lawhead said.

Although the interiors will have the high open ceilings common to warehouse clubs, Lawhead said the flooring and fixtures will be upgraded."

MedClub was initially conceived in late 1986, but several key employee positions were not filled until this August.

The two company founders offer expertise in the medical, real estate, and financial areas, and additional company personnel supply background in medical supply and distribution, purchasing, and membership warehouse operations.

Lawhead said MedClub chose to base its operations and open its first store in San Diego because of the large retirement population and because three of the company's officers are from the area. However, long range company plans call for expansion to more of the West Coast, plus Arizona and Colorado.

Correction

In our chart of the Top 25 drug wholesalers in our Sept. 14th issue, we inadvertently reported that Drug Guild Distributors of Secaucus, N. J. registered flat growth for its fiscal year ending July 31, 1987. Drug Guild actually experienced a 13 percent increase in sales for the period. Sales increased from $150 million in fiscal 1986 to $170 million in fiscal 1987.

Drug Store News also described Drug Guild as a co-op. Actually, the company, which services 640 retail customers, is a stockholding corporation. Some 240 of Drug Guild's retail drug store customers are stockholders in the company.

TRENDS

Cosmetics sales setting brisker pace, buyers say

According to most chain drug store cosmetic buyers, the cosmetics category experienced moderate growth in 1986 and to date is turning in a slightly stronger performance for 1987.

Fully one-third of cosmetic buyers who responded to *Drug Store News*' first annual Cosmetic Buyer Survey reported that total cosmetic department sales were up between 6 percent and 10 percent in 1986.

Twenty-five percent of buyers said sales were up between 11 percent and 15 percent in 1986, while 19 percent reported sales growth of between 16 percent and 20 percent.

Only 6 percent of respondents indicated that total cosmetic sales were up over 20 percent.

However, in interviews with cosmetic buyers nationwide that took place since the survey, *Drug Store News* is being told that a number of chains are experiencing cosmetic category sales increases of 20 percent and better, with some chains, like Revco and Perry Drug, reporting even stronger increases. Refurbishing and upgrading cosmetic departments is generally cited by buyers as being a reason for the increase.

According to the survey, companies that had stores with trained cosmetic sales clerks reported stronger sales increases than did those without trained clerks, with one-third of buyers saying this was the case in 1986.

One in ten buyers, however, said they could not detect any difference in cosmetic sales growth in their stores, that it didn't seem to matter whether store clerks were trained or not. Their cosmetic sales growth rates were still the same. The majority of the buyers, however (56 percent), could not tell either way because they lacked adequate means to measure any such difference.

A third of the buyers with trained sales clerks in their stores said their cosmetic sales increased an average of between 6 percent and 20 percent. Only 6 percent of buyers in stores without trained sales clerks reported increases in this range.

In 1986, buyers reported that their strongest sales increases came from the following categories:

- **Nail Extenders or artificial nails:** 56 percent of the buyers reported sales increases of 16 percent and more;
- **Nail Color:** 38 percent said sales were up 16 percent and more;
- **Nail Treatments:** 31 percent of all buyers reported sales increases of 16 percent and more;
- **Lip Color:** 24 percent said their sales were up 16 percent and more; and
- **Eye Pencils:** 18 percent said their sales were up 16 percent and more.

In 1986, the majority of buyers described the nail care segment as their fastest growing cosmetic department. Forty-five percent of all buyers said their sales in the total nail segment were up 16 percent or more.

In 1987, however, buyers report that nail care sales are growing at a slightly less dramatic rate. Most buyers point out that their nail extender sales are flattening and that color sales are also growing at a slightly slower rate.

Nail treatment sales, however, are still strong, with many buyers still reporting sales increases in excess of 16 percent.

The biggest increases so far this year are happening in the eye segment.

Some buyers also say their facial make-up sales are surging, especially with the new lighter make-ups like the Max Factor and Maybelline mousse, and the translucent powders from Corn Silk and Factor, as well as with the launch of Revlon's new very light and natural New Complexion make-up.

Segment	(5%) to 0%	0%-5%	6%-10%	11%-15%	16%-20%	21% Plus	n.a.
Nail color	0%	12%	12%	12%	32%	6%	26%
Treatments	0	12	19	12	19	12	26
Extenders	0	12	0	6	12	44	26
Implements	0	26	12	26	5	5	26
Total nail	0	5	12	12	26	19	26
Lip moisturizers	5	31	38	0	0	0	26
Lip color	12	0	32	6	12	12	26
Lip pencils	12	12	26	12	6	6	26
Lip gloss	6	32	19	6	13	0	26
Total lip	0	12	32	5	19	6	26
Eye shadow	0	5	50	19	0	0	26
Mascara	0	12	19	32	12	0	25
Eye pencils	6	12	26	12	12	6	26
Total eye	0	6	25	25	19	0	25
Face powders	5	26	12	19	0	12	26
Blush	0	25	32	12	0	6	25
Total face	0	25	32	12	6	0	25
Tints, foundations & moisturizers	6	25	32	6	0	6	25
Ethnic cosmetics	12	38	6	6	0	0	38

About the survey

Chains asked: how maximizing sales?

The cosmetics and fragrance categories are two of the most important growth departments in today's chain drug store.

Management constantly tries to maximize sales in these two departments, through service and through using more creative in-store selling aids.

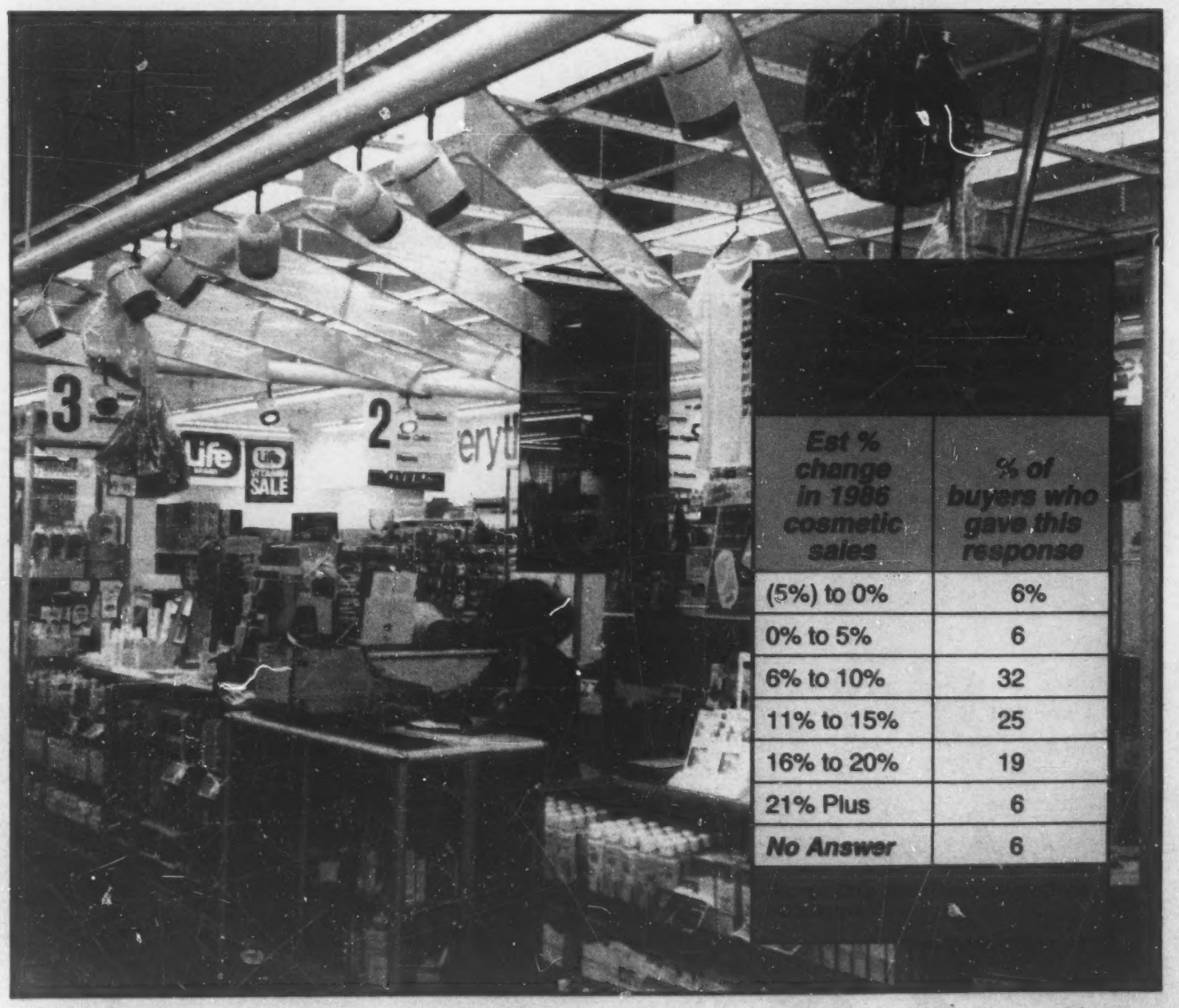
Because *Drug Store News* recognizes the pivotal importance of these two departments, we wanted to know what chain drug stores were doing to maximize sales. To find out, we surveyed cosmetic/fragrance buyers at chain drug stores, asking them to describe their cosmetic merchandising strategies.

Buyers have said their companies encourage suggestive selling, so we were particularly interested in discovering how the average drug chain is training its clerks to do this. Our survey also attempted to determine from buyers how fast sales are increasing in the cosmetics category, and which segments are outperforming (or underperforming) the category as a whole.

We also asked buyers to rate how well a variety of cosmetic companies service their accounts, and we asked buyers to tell us which brands or lines are getting more space in their planograms, and which are getting less.

To cap off the survey, we also asked buyers to rank their three best-selling brands, along with their three worst sellers, in nail care, lip care, eye care and face make-up.

Surveys were sent to 60 top drug chains, and 27 percent of them responded in time for our deadline.



Est % change in 1986 cosmetic sales	% of buyers who gave this response
(5%) to 0%	6%
0% to 5%	6
6% to 10%	32
11% to 15%	25
16% to 20%	19
21% Plus	6
No Answer	6

The new Shoppers Drug Mart store in Main Square, Toronto, sports a new cosmetics look with overhead track lights that add to fashion appeal.